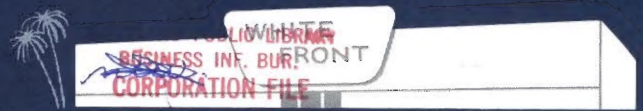




1959 ANNUAL REPORT

for year ended January 31, 1960



INTERSTATE DEPARTMENT STORES, INC.



OUR COVER DESIGN illustrates the four different types of stores which comprise the Interstate chain. They are shown on the shelves of a special type of display unit used in many of our stores.

Of the four types of stores, two — White Front on the West Coast and Family Fair in the Midwest — are new developments. They represent Interstate's expanding participation in the discount field. The discount field has grown rapidly in recent years and today has come into its own as a major force in retailing.

The suburban shopping center store also figures prominently in the Company's future. The suburban store is mostly a postwar phenomenon which developed in response to the migration of families from the cities to suburban communities. The conveniences of easy accessibility and ample parking facilities are among its chief advantages, as well as the high quality of its products and services.

The fourth kind of store illustrated on the cover is the traditional "key" department store in the heart of the city. Though many changes will take place in the retailing field in the years ahead, the role of the "key" downtown department store, with its reputation for fine service and its wide acceptance as an arbiter of style and fashion, will continue to be an important part of Interstate's operations.

With these four types of stores, Interstate plans to become an increasingly important factor in retailing in the decade of the sixties.

Summary of 1959

	Years Ended January 31	
	1960	1959
Sales	\$90,315,963	\$65,674,273
Net Income Before Taxes	2,315,064	987,762
Net Income After Taxes	1,394,302	645,666
Earnings Per Share*	4.11	2.06
Dividends Per Share: Cash	1.20	.92½
Stock	3%	3%
Long Term Debt	3,749,235	4,978,212
Working Capital	12,798,724	13,626,127
Stockholders' Equity	17,051,348	15,586,307
Stockholders' Equity Per Share*	50.28	49.62
Current Ratio	2.6 to 1	3.6 to 1

* Based on shares issued and outstanding as at the end of each fiscal year.

April 29, 1960

TO THE STOCKHOLDERS OF

INTERSTATE DEPARTMENT STORES, INC.

Interstate Department Stores, Inc., made further progress last year in its program for strengthening and expanding its position as a major chain of retail stores in the discount, suburban shopping center, and department store fields. The Company acquired the leading discount operation on the West Coast, opened two additional discount centers in the Midwest, and moved ahead with plans for opening several additional self-service stores in the current year.

Sales reached a record high, and earnings were among the best in the Company's history. In addition to regular dividends, a stock dividend of 3 per cent was distributed. The Company's favorable performance was reflected in an increase in stockholders' equity.

SALES AND EARNINGS

Sales set a new record of \$90,315,000, which compares with \$65,674,000 the previous year.

Net income was \$1,394,000 — better than double the prior year's net of \$645,000. Despite the fact that there were 25,055 more shares outstanding at the end of the fiscal year, earnings per share rose to \$4.11 from \$2.06 the year before, based on shares outstanding as at the end of each year.

The Company's earnings reflect a revision in depreciation policy. Under the new policy, depreciation of fixtures and amortization of leasehold improvements are generally provided for over a 12½ year period, which closely approximates the rate charged for Federal income tax purposes. In the past, the provision on the books was made on a 10 year basis. The rate now used is consistent with our tax deduction and compares conservatively with practice of leading retailing organizations.

The large increase in sales and earnings reflects the acquisition of White Front Stores, Inc. in April 1959. White Front is the leading discount operation on the West Coast. Other favorable factors included the launching of the Company's new chain of Family Fair self-service department stores in the Midwest and improved performance by its group of downtown department stores.

DIVIDENDS

The Company's policy of paying a combination of cash and stock dividends was continued. Four cash dividends of 30 cents a share were paid, making a total of \$1.20 for the year. In addition, a stock dividend of 3 per cent was declared. The stock dividend was valued for accounting purposes at \$1.026 a share, based on the closing price of the Company's stock the day prior to its declaration.

FINANCIAL POSITION

Stockholders' equity in Interstate rose to \$17,051,000 — an increase of \$1,465,000 from the prior year. Based on the shares outstanding as at the end of each year, equity amounted to \$50.28 per share compared with \$49.62 a year ago.

Chief among the changes in the Company's balance sheet were a reduction of \$1,200,000 in long-term debt, and an increase of \$967,000 in gross fixed assets.

Important additions to assets included the acquisition of White Front Stores, Inc., in April 1959, and expenditures totalling \$597,000 for store improvements, modernization, and new furniture and fixtures.

Working capital at the end of the year totalled \$12,798,000, which compares with \$13,626,000 the year before. The change in working capital reflects the use of funds to acquire White Front and to reduce long-term debt, which was partly offset by increased retained earnings.

STATEMENT of SOURCE and APPLICATION of FUNDS YEAR ENDED JANUARY 31, 1960

Working Capital at beginning of year	<u>\$13,626,127</u>
Additions to Working Capital	
Net Earnings and Special Item	\$ 1,394,302
Depreciation and Amortization	808,110
Value of Stock Issued for Acquisition of a Subsidiary	499,986
Decrease in Deferred Charges	84,874
	<u>\$ 2,787,272</u>
Application of Working Capital	
Cash Dividends	\$ 429,247
Decrease in Long-term Debt	1,228,977
Acquisition of Fixed Assets of Subsidiary Acquired..	581,874
Other Fixed Assets Acquired Under Modernization and Expansion Program	597,321
Cost of Intangibles Applicable to Subsidiary Acquired	695,568
Increase in Other Assets	77,912
Decrease of Deferred Income	3,776
	<u>\$ 3,614,675</u>
Working Capital at end of year	<u>\$12,798,724</u>

EXPANSION IN NEW FIELDS

The Company's growth and expansion program has had three primary objectives: (1) to strengthen its position in the conventional retailing field by modernizing its key "downtown" department stores, (2) to expand its operations in new fields of retailing, and (3) to terminate substandard stores as soon as practical. Though modernization continued as a major objective last year, particular emphasis was placed on establishing a position for the Company in the rapidly expanding discount field.

After some experimentation Interstate entered the discount field with the acquisition of White Front Stores, Inc. in April 1959. With its two stores in the Los Angeles area, White Front contributed significantly to the Company's sales and earnings last year.

Plans have been completed to open a third White Front on the West Coast. The store will be opened later this year and will be located at Anaheim, California, near Disneyland. It will be the largest of the three White Fronts with over 100,000 square feet of selling space and will include substantial soft goods merchandise lines in addition to White Front's traditional hard goods lines.

Another important step was taken last year with the launching of the Family Fair chain of self-service department stores in the Midwest. The first such store — though modified from the basic type — was opened in Toledo, Ohio, last summer; and the prototype store, which became the model for Family Fairs to follow, was opened in Canton, Ohio, in October.

An artist's sketch of the proposed new White Front Store to be opened later this year near Disneyland in California. It will be the third and largest White Front operation.



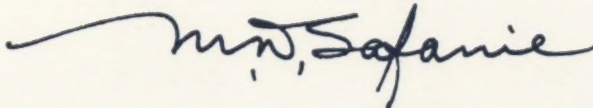
Encouraged by the favorable public reception accorded these stores, the Company moved ahead with plans for opening three Family Fairs, all in the Louisville, Kentucky area. The first was opened in March 1960, in a new shopping center in Louisville. With approximately 72,000 square feet of selling space, it is the center's major store. Like the Canton Family Fair, it carries a broad line of quality merchandise, both hard and soft, which is offered in attractive, air-conditioned surroundings at discount prices. The two additional Family Fairs in Louisville will be ready to open their doors to the public later in the year.

OUTLOOK

The combination of Interstate and White Front should have an important effect on the growth of the Family Fair and White Front operations. Each will benefit from the specialized skills acquired respectively in the soft and hard goods merchandising fields.

The steps being taken by the Company to expand its position in the discount field, together with its continued program of modernizing its downtown stores, can be expected to contribute significantly to future growth.

For the Board of Directors,



M. D. SAFANIE, *Chairman*



S. W. CANTOR, *President*



OPENING DAY AT LOUISVILLE



Over 25,000 people came to the opening of the Louisville Family Fair in March of this year. Newest in the Company's chain of Family Fairs, it is patterned after the prototype store which was opened last year in Canton, Ohio. The store offers a broad line of merchandise at discount prices and is designed to facilitate self-service shopping.



INTERSTATE DEPARTMENT STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated

ASSETS

	1959 (As at Jan. 31, 1960)	1958 (As at Jan. 31, 1959)
Current Assets:		
Cash	\$ 1,353,722	\$ 1,042,164
United States Treasury Bills — at cost, plus accrued interest	193,787	1,529,210
Accounts receivable:		
Customers	\$ 5,952,871	\$ 5,353,219
Less: Reserves	331,168	298,852
Other	554,901	687,567
Merchandise inventories (Note B) ..	12,425,331	10,255,890
Prepaid expenses (Note C)	471,950	373,061
Total Current Assets	20,621,394	18,942,259
Other Assets	172,085	94,173
Fixed Assets — at cost (Notes D and E):		
Land, land improvements and buildings	988,946	694,432
Furniture and equipment	5,337,957	5,018,112
Leaseholds and leasehold improve- ments	5,516,136	5,163,361
Less: Reserves for depreciation and amortization	11,843,039	10,875,905
Deferred Charges	4,967,251	4,371,202
Intangibles Applicable to a Subsidiary Acquired (Note A)	695,568	531,152
	<u>\$28,811,113</u>	<u>\$26,072,287</u>

The accompanying Notes to Financial Statements are an integral

Balance Sheet

LIABILITIES

	1959 (As at Jan. 31, 1960)		1958 (As at Jan. 31, 1959)	
Current Liabilities:				
Notes payable—current installments (Note D)		\$ 1,255,000		\$ 880,000
Accounts payable—trade		4,206,128		2,660,404
Loans on trust receipts (Note B) ..		127,698		
Accrued expenses and other liabilities (Note D)		1,421,644		1,182,646
Taxes withheld and accrued, other than Federal income taxes		812,200		593,082
Accrued Federal income taxes	\$ 800,431		\$ 466,231	
Less: United States Treasury Bills —at cost, plus accrued interest.	800,431	—	466,231	—
Total Current Liabilities		7,822,670		5,316,132
Deferred Federal Income Taxes (Note E)		145,000		145,000
Long-term Debt (Note D):				
Notes payable	3,360,000		4,615,000	
Mortgages payable and trust-deed notes payable	389,235	3,749,235	363,212	4,978,212
Total Liabilities		11,716,905		10,439,344
Deferred Income—Carrying Charges		42,860		46,636
Stockholders' Equity (Notes A, C, D, E, F and G)		17,051,348		15,586,307
Lease Commitments and Other Comments (Notes H and I)				
		<u>\$28,811,113</u>		<u>\$26,072,287</u>

part of this statement and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

	1959 (Year Ended Jan. 31, 1960)	1958 (Year Ended Jan. 31, 1959)
Net sales:		
Owned Departments	\$76,323,574	\$58,180,382
Leased Departments	13,992,389	7,493,891
	<u>90,315,963</u>	<u>65,674,273</u>
Cost of sales (including certain buying, occupancy and distribution expenses)	70,676,835	49,739,216
	<u>19,639,128</u>	<u>15,935,057</u>
Selling, general and administrative expenses	17,523,302	14,952,176
	<u>2,115,826</u>	<u>982,881</u>
Other income—net	463,682	291,086
	<u>2,579,508</u>	<u>1,273,967</u>
Interest expense	264,444	286,205
Net earnings before Federal income taxes	<u>2,315,064</u>	<u>987,762</u>
Provision for Federal income taxes	915,000	360,000
Net earnings (Notes A, C and E)	<u>1,400,064</u>	<u>627,762</u>
Special item:		
Increase/(Decrease) in reserve to reduce merchandise inventories at cost as determined on the "last-in, first-out" basis to the lower of cost or market	5,762	(17,904)
Net earnings and special item	<u>\$ 1,394,302</u>	<u>\$ 645,666</u>

Depreciation and amortization amounting to \$808,110 (1959) and \$884,535 (1958) have been charged to cost of sales and selling, general and administrative expenses.

The accompanying Notes to Financial Statements are an integral part of this statement and should be read in conjunction herewith.

NOTES TO FINANCIAL STATEMENTS

The financial statements as at and for the year ended January 31, 1959, are included for comparative purposes only. Reference should be made to the previously issued report for the Accountants' Report and notes pertaining to those financial statements.

NOTE A—During the year, the Company purchased all the outstanding capital stock of White Front Stores, Inc., a corporation operating two retail stores in California, for \$1,150,013 in cash and 16,393 shares of the Company's Common Stock. The aggregate amount assigned to such shares was credited to Common Stock (\$16,393) and to Capital Surplus (\$483,593). The excess of the aggregate cost over the underlying book equity amounting to \$695,568 is shown in the accompanying consolidated balance sheet in the caption "Intangibles applicable to a subsidiary acquired." The Company has not adopted any policy at this time for the amortization of the foregoing amount.

The results of operations of White Front Stores, Inc. are included in the accompanying consolidated statement of earnings from April 2, 1959.

NOTE B—Merchandise inventories include merchandise in transit amounting to approximately \$1,070,000 as at January 31, 1960, based on specific invoice cost.

Merchandise inventories at stores are based principally on the retail method at (a) cost as determined on the "last-in, first-out" basis, less a reserve to reduce such inventories to the lower of cost or market (\$10,637 as at January 31, 1960 and \$4,875 as at January 31, 1959), or (b) the lower of cost or market after provision for markdowns based on age of merchandise.

Merchandise inventories at warehouses are priced at the

lower of cost or market.

At January 31, 1960, merchandise inventories in the approximate amount of \$140,000 were subject to loans on trust receipts.

NOTE C—During the year the Company changed its method of accounting for store pre-opening expenses by adopting the policy of amortizing such expenses over a twelve month period commencing with the opening of the store. Previously, such expenses had been charged to income in the fiscal year during which the store commenced operations. Had this change not been made, net income for the year ended January 31, 1960 would have been approximately \$35,000 less.

NOTE D—Notes payable as at January 31, 1960 are due to:

Banks	\$2,520,000
Insurance Company	2,095,000
Total (including current installments of \$1,255,000)	<u>\$4,615,000</u>

The bank loans (bearing interest at 5% per annum) are payable in aggregate annual installments of \$840,000 from 1960 through 1962.

The notes payable to an insurance company in the amounts of \$1,550,000 and \$545,000 require annual payments as follows: on the first note, \$350,000 from 1960 through 1962 and \$500,000 in 1963; on the second note, \$65,000 from 1960 through 1966, inclusive, and \$90,000 in 1967.

The loan agreements with the banks and the insurance company contain, among other things, covenants restricting the right of the Company to declare dividends (other than stock dividends). Under the most restrictive of these covenants, which requires the Company to maintain certain amounts of consolidated working capital, approximately \$2,300,000 of consolidated earnings retained for use in the

Consolidated Statement of Stockholders' Equity

	1959 (Year Ended Jan. 31, 1960)	1958 (Year Ended Jan. 31, 1959)
Earnings Retained for Use in the Business as at beginning of year	\$11,671,290	\$11,591,697
Net earnings and special item	1,394,302	645,666
	13,065,592	12,237,363
Dividends declared (Note F)	750,043	566,073
Earnings Retained for Use in the Business as at end of year	12,315,549	11,671,290
Capital Surplus (Notes A and F)	3,202,382	2,407,373
Common Stock (stated at par value of \$1 per share, plus \$1,271,306 retained as Capital by resolution of the Board of Directors):		
	<u>1959</u>	<u>1958</u>
	<u>Shares</u>	<u>Shares</u>
Authorized	500,000	500,000
Issued	342,001	316,946
To be issued (Note F)	9,380	8,662
	351,381	325,608
	1,622,687	1,596,914
	17,140,618	15,675,577
Less—Treasury stock—2,846 shares—at cost	89,270	89,270
Stockholders' Equity (Notes A, C, D, E, F and G)	\$17,051,348	\$15,586,307

GENERAL—The accompanying financial statements are subject to final determination of Federal, state and local taxes.

Accountants' Report

To the Board of Directors

INTERSTATE DEPARTMENT STORES, INC.
New York, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1960, and the related consolidated statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity, together with the notes to financial statements, present fairly the consolidated financial position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1960, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the changes, which we approve, set forth in Notes C and E of the notes to financial statements.

S. D. LEIDESDORF & Co.
Certified Public Accountants

New York, N. Y.
April 12, 1960

10 Year Comparative Operating Statistics

(in thousands of dollars)

Years Ended January 31,	SALES			NET INCOME		Earnings Per Share*	Cash Dividends Per Share*	Stockholders' Equity Per Share*
	Total	Owned Departments	Leased Departments	Before Fed. Inc. Tax	After Fed. Inc. Tax			
1960	\$90,315	\$76,323	\$13,992	\$2,315	\$1,394	\$4.11	\$1.20	\$50.28
1959	65,674	58,180	7,494	987	645	2.00	.90	48.29
1958	66,653	59,408	7,245	1,623	1,040	3.22	2.43	47.26
1957	67,184	60,086	7,098	2,131	1,323	4.09	2.43	46.47
1956	66,359	59,062	7,297	2,348	1,360	4.28	2.43	44.76
1955	62,902	55,511	7,391	1,980	1,078	3.41	2.43	43.24
1954	63,865	56,317	7,548	1,829	1,032	3.27	2.43	42.26
1953	64,758	56,900	7,858	2,198	1,188	3.76	2.43	41.42
1952	64,853	56,511	8,342	2,319	1,293	4.09	2.43	40.08
1951	65,508	57,107	8,401	3,320	1,993	6.28	2.06	38.39

* Adjusted to give effect to stock dividend distribution.

Directors

SAMUEL J. ABEND
HARRY BLACKMAN
SOL W. CANTOR
CHARLES E. FEDERMAN
BARRY GOLDEN
EMANUEL P. LEWIS
HAROLD F. LINDER
ALBERT PARKER
PAUL D. PREGER
MURRAY D. SAFANIE
GEORGE H. STUNTZ
HAROLD J. SZOLD

INTERSTATE DEPARTMENT STORES, INC.

Executive and General Offices 111 EIGHTH AVENUE, NEW YORK, N. Y.

Officers

MURRAY D. SAFANIE
Chairman of the Board

SOL W. CANTOR
President

SAMUEL J. ABEND
Vice President

BARRY GOLDEN
Vice President

GEORGE H. STUNTZ
Treasurer

ALBERT PARKER
Secretary

EDWARD C. SCHENKEL
*Assistant Treasurer
and Assistant Secretary*

Transfer Agent: The Chase Manhattan Bank, N. Y.

Registrar: Manufacturers Trust Company, N. Y.

General Counsel: Parker, Chapin and Flattau, N. Y.

Public Accountants: S. D. Leidesdorf & Co., N. Y.

Shares Listed: New York Stock Exchange

Annual Meeting: Fourth Wednesday in May

INTERSTATE DEPARTMENT STORES

CALIFORNIA	WHITE FRONT — <i>Los Angeles</i> WHITE FRONT — <i>Van Nuys</i>
CONNECTICUT	STANLEY'S — <i>New Haven</i>
ILLINOIS	AURORA DRY GOODS CO. — <i>Aurora</i> CARROLL HOUSE — <i>Belleville</i> DECATUR DRY GOODS CO. — <i>Decatur</i> PEORIA DRY GOODS CO. — <i>Peoria</i> ROCKFORD DRY GOODS CO. — <i>Rockford</i> ROCKFORD DRY GOODS — <i>Love's Park</i> SPRINGFIELD DRY GOODS CO. — <i>Springfield</i> WAUKEGAN DRY GOODS CO. — <i>Waukegan</i>
INDIANA	HILL'S — <i>Anderson</i> THE EVANSVILLE STORE — <i>Evansville</i> THE EVANSVILLE STORE — <i>Lawndale Branch</i> GRAND LEADER — <i>Fort Wayne</i> GRAND LEADER — <i>Southgate — Fort Wayne</i> HILL'S — <i>Marion</i> STILLMAN'S — <i>Muncie</i> GRAND LEADER — <i>South Bend</i> HILL'S — <i>Vincennes</i>
IOWA	HILL'S — <i>Davenport</i> HILL'S — <i>Des Moines</i>
KENTUCKY	FAMILY FAIR — <i>Louisville</i> PADUCAH DRY GOODS CO. — <i>Paducah</i>
MICHIGAN	GRAND LEADER — <i>Battle Creek</i> THE FAIR — <i>South Plaza — Flint</i> STILLMAN'S — <i>Jackson</i> LANSING DRY GOODS CO. — <i>Lansing</i> CARROLL HOUSE — <i>Port Huron</i>
NEW YORK	BOSTON STORE — <i>Latham</i> BOSTON STORE — <i>Massena</i> STANLEY'S — <i>Troy</i> BOSTON STORE — <i>Utica</i>
OHIO	FAMILY FAIR — <i>Canton</i> THE BOSTON STORE — <i>Springfield</i> FAMILY FAIR — <i>Toledo</i>
PENNSYLVANIA	COPLAY DISCOUNT FAIR — <i>Coplay</i> CARROLL HOUSE — <i>Williamsport</i> STILLMAN'S — <i>York</i>
SOUTH CAROLINA	BAILES — <i>Anderson</i>
TENNESSEE	THE KNOX — <i>Knoxville</i>
VERMONT	ECONOMY DEPARTMENT STORE — <i>Rutland</i>
VIRGINIA	CARROLL HOUSE — <i>Staunton</i>
WEST VIRGINIA	THE HUNTINGTON STORE — <i>Huntington</i>
WISCONSIN	FOND DU LAC DEPARTMENT STORE — <i>Fond du Lac</i> HILL'S — <i>Green Bay</i> HILL'S — <i>Madison</i> HILL'S DEPARTMENT STORE — <i>Milwaukee</i> RACINE DRY GOODS CO. — <i>Racine</i> HILL'S DEPARTMENT STORE — <i>Sheboygan</i> CARROLL HOUSE — <i>West Bend</i>